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FISCAL IMPACT STATEMENT

LS 6822 | **NOTE PREPARED:** Jan 24, 2008
BILL NUMBER: SB 330 | **BILL AMENDED:**

SUBJECT: Eligibility for Long-Term Care Policy Deduction.

FIRST AUTHOR: Sen. Mishler | **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill provides a deduction from Adjusted Gross Income for premiums paid for a policy of long-term care insurance. (Current law limits the deduction to premiums paid for a qualified long-term care policy.)

Effective Date: January 1, 2009.

Explanation of State Expenditures: *Department of State Revenue (DOR)*- The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this tax credit. The DOR's existing budget and resources should be sufficient to implement these provisions.

Explanation of State Revenues: *Summary-* The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers for premiums paid for long-term care insurance policies other than policies sold through the Indiana Long-Term Care (Partnership)Insurance Program operated by the Family and Social Services Administration. Current statute already provides a deduction for premiums paid for Partnership policies. The revenue loss due to this bill could potentially total $5.76 M annually beginning in FY 2010. If current trends persist, the revenue loss in FY 2011 and FY 2012 could potentially total approximately $6.14 M and $6.54 M, respectively.

Since the deduction is effective beginning in tax year 2009, the fiscal impact would begin in FY 2010. Eighty- six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

<u>Background:</u> According to the Indiana Department of Insurance, the Indiana market penetration rate for long-term care policies is between 5% and 6%. Oxford Analytica reports that demand for long-term care is expected to expand greatly over the next 50 years, as baby boomers age, from 5.3 million in 2006 to 20.9 million in 2050. The Congressional Budget Office (CBO) reports that this rise in the elderly population will quadruple long-term care expenditures. For example, the national average cost of a private room in a nursing home is almost $80,000 per year. However, according to the CBO, only 7% of seniors in 2000 had annual income over $50,000.

<u>Explanation of Local Expenditures:</u>

<u>Explanation of Local Revenues:</u> Because the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes may, as a result, experience an indeterminable decrease in revenue from these taxes.

<u>State Agencies Affected:</u> Department of State Revenue.

<u>Local Agencies Affected:</u> Counties with local option income taxes.

<u>Information Sources:</u> OFMA income tax database, 2005;. *Projections of Expenditures for Long-Term Care Services for the Elderly*, U.S. Congressional Budget Office, March 1999; *Fact Sheet: Selected Long-Term Care Statistics*, Family Caregiver Alliance; *Characteristics of Long-Term Care Users*, U.S. Agency for Heathcare Research and Quality, 1998; *Federal and State Initiative to Jump Start the Market for Private Long-Term Care Insurance*, The Urban Institute, 2000; Indiana Long Term Care Insurance Program*,* 2007 Annual Report; 2006 U.S. Census data. *How Will Boomers Pay For Long-Term Care?*, Oxford Analytica, 2007; Carol Cutter, Indiana Department of Insurance.

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